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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF NEW YORK
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3 ARCHIE COMIC PUBLICATIONS,
4 INC.,

5 Plaintiff,

6 v.

10 CV 8858 (RMB)

7 KENNETH W. PENDERS, II,

8 Defendant.
-----x

9 New York, N.Y.
10 May 2, 2013
11 10:03 a.m.

12 Before:

13 HON. RICHARD M. BERMAN,

14 District Judge

15 APPEARANCES

16 COLLEN IP
17 Attorney for Plaintiff
18 BY: JOSHUA PAUL, ESQ.

19 DAMAN, LLC
20 Attorney for Defendant
21 BY: JEFFREY K. DAMAN, ESQ.

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1 (In open court)

2 (Case called)

3 THE COURT: So this looks like a fine mess, and by
4 that I mean that this is a matter that I thought had settled or
5 it was on the verge of settling. I guess there was no
6 settlement agreement finally reached, and so I'm happy to give
7 you a jury trial, which is what you're asking for, in the
8 absence of settlement. So when are you ready to go to trial?

9 MR. PAUL: Your Honor, I'm Joshua Paul for the Archie
10 Comics. So let me, to address that issue, as --

11 THE COURT: You just have to give me a date.

12 MR. PAUL: I can't give you a date. I'd like to
13 explain why.

14 THE COURT: Oh.

15 MR. PAUL: We have the -- As you know, we took this
16 case over right before the mediation, and it has become clear
17 to us that the focus of the case, as is reflected in the
18 proposed jury instructions and the joint pretrial order,
19 significantly misses a very critical legal issue. And I'm only
20 asking for the opportunity to write to you, and I'd like to
21 explain to you what that is because we're dealing with
22 congressionally created copyrights.

23 THE COURT: This thing has been so litigated, counsel,
24 and I'm not coming in with a new lawyer at the 11th hour and
25 going in a totally different direction.

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1 MR. PAUL: May I at least explain, to take a moment of
2 your time, or if not now, will you give me an opportunity to
3 write --

4 THE COURT: No, there's no need to have writing.
5 You've had months. You, yourself, how long have you been in
6 this case?

7 MR. PAUL: We've been in the case for a while. We
8 focused on settlement. Our prior counsel exercised a retaining
9 lien. We received --

10 THE COURT: You have been in the case six months,
11 yourself?

12 MR. PAUL: That's right. We've received the prior
13 lawyer's exerting retaining. So if you'll allow me, what's
14 been focused on is the rule in copyright law which governs who
15 owns the copyrighting as between a hiring party and --

16 THE COURT: If you have any familiarity with the case,
17 you know that I know all of what you're saying.

18 MR. PAUL: So what's been missed, your Honor, is this.
19 The question is, this is a derivative work. The underlying
20 rights here don't come from Archie. They come from a contract
21 between Sega of America, which owns the copyrights, which then
22 granted to Archie the right to use the copyright for a
23 particular purpose.

24 Archie, in turn, hired Mr. Penders. The cases have
25 said that in this circumstance, the ownership of a copyright in

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1 the derivative work is governed by the intention of the
2 licensor and the licensee in the grant, and it's that I'd like
3 to be able to write, at least explain that authority.

4 THE COURT: So are you saying prior counsel blew it?

5 MR. PAUL: Absolutely, your Honor. So I will say that
6 this -- the issue will need to be addressed in one forum or
7 another, and we're hoping -- we're hoping that you'll allow us
8 an opportunity to explain the issue and to explain our
9 proposal, our proposal for dealing with it in a way that will
10 not further inconvenience and drain resources, but will still
11 allow this Court to apply the correct law. I can't be as --

12 THE COURT: Well, give it to the jury. That's the way
13 we're going to deal with it. We're not going to have more
14 motion practice. My God, this thing has been litigated up,
15 down. If it's a valid issue, you and counsel will discuss it,
16 meet and confer. If you need to revise the joint pretrial
17 order and the jury instructions, you'll do that, and the jury
18 will decide it.

19 So I get back to my original question. When would you
20 be ready for a trial?

21 MR. PAUL: I did not come today prepared to answer
22 that question, but I will --

23 THE COURT: That's really surprising to me because
24 what else would we be talking about today?

25 MR. PAUL: I thought we were dealing with a

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1 premotion -- this was a premotion conference that was brought
2 on by a premotion application by Mr. Penders' lawyers, who are
3 asking for an injunction.

4 THE COURT: So you didn't think you could talk about
5 settlement or trial or motions you came prepared to --

6 MR. PAUL: Judge, please. We really don't want --
7 we -- I just want -- we'll answer your questions.

8 THE COURT: Okay. So when are you ready for trial?

9 MR. PAUL: I'll have to -- I have a -- I think we can
10 be ready for trial in 60 days.

11 THE COURT: What about you?

12 MR. DAMAN: Your Honor, I also had not checked the
13 calendar for trial dates with my client on the assumption that
14 we were here to talk about the injunction.

15 THE COURT: Everybody has been asleep in this case or
16 not.

17 MR. DAMAN: Well, we actually -- I know your Honor
18 mentioned that there was no settlement agreement. We believed
19 that there was actually a settlement agreement. So we thought
20 that we were either dealing with the schedule to that and/or
21 with the injunction to keep the status quo.

22 THE COURT: And you feel there is no settlement; is
23 that right?

24 MR. PAUL: Absolutely.

25 THE COURT: And what is the -- If he thinks there is

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1 and you think there isn't, that's so peculiar. Why would that
2 be?

3 MR. PAUL: You're asking for why we believe there's no
4 settlement?

5 THE COURT: Yes.

6 MR. PAUL: Sure. Because the half of page of points
7 that were reached and signed at the mediation session --

8 THE COURT: With you?

9 MR. PAUL: Yes. We came in for that, yes. We came in
10 and then that next week is when the mediation occurred.

11 THE COURT: Right.

12 MR. PAUL: It provided for -- that, as it's first
13 item, that Mr. Penders asserted ownership of certain rights,
14 and that indicated that he intended to exploit those rights.
15 We said, and this is the term sheet, that the Archie company
16 did not agree with that assertion, but that Archie would agree
17 that it would not pursue a claim against Penders for exploiting
18 those rights, provided that those claimed rights would not have
19 a look or feel as though they were part of a sonic universe.

20 And then also said the metes and bounds of the claimed
21 rights, which is a term of art, must, must be described in
22 Schedule A. And so after we had the negotiation -- excuse me,
23 may I just take a brief drink; thank you -- we saw you, I
24 believe it was January 7th, and we had a very short conference.
25 I recall explaining, I think there's a transcript that says,

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1 that the devil was in the details. We needed to work out this
2 schedule.

3 And we then exchanged many drafts and e-mail
4 correspondence, which I attached to a letter that is part of
5 the record, trying to come up with the claimed -- you know,
6 this metes and bounds of the claimed rights. The reason that
7 was material -- so it never occurred. And the reason that's
8 material --

9 THE COURT: Yes, I get all that. Do you want to
10 settle?

11 MR. PAUL: Desperately.

12 THE COURT: Does your client want to settle?

13 MR. PAUL: Desperately, your Honor.

14 THE COURT: Do you want to settle?

15 MR. DAMAN: Yes, your Honor. And we take issue with
16 their --

17 THE COURT: Yes, of course you do. Otherwise, we'd
18 have a settlement.

19 MR. DAMAN: I don't take issue with the facets as he's
20 reciting them. I take issue with their willingness to engage
21 in a discussion over that possible schedule.

22 THE COURT: Well, I'm just trying to figure out. He
23 says he desperately wants to settle.

24 MR. PAUL: I can explain to you --

25 THE COURT: No. You've explained plenty. Do you

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1 desperately want to settle also?

2 MR. DAMAN: Yes, your Honor, and, in fact, we'd love
3 to adhere to the terms of the settlement from November.

4 THE COURT: Okay. Here's what is escaping me. You
5 have two, obviously, qualified, experienced, professional
6 attorneys, both of whom desperately want to settle. I never
7 have -- I've probably done thousands of settlements. I never
8 had -- so most of them people don't -- somebody doesn't
9 desperately want to settle.

10 MR. PAUL: I can explain why, what's missing.

11 THE COURT: No, no. I know you have an explanation
12 for everything, and I appreciate that. But when we do have two
13 lawyers that desperately want to settle, I think I have a one
14 hundred percent batting average of having settled cases. So
15 either somebody really doesn't desperately want to settle -- I
16 mean, that's always a possibility -- or, there are lots of
17 ors --

18 MR. PAUL: Sure.

19 THE COURT: -- personalities or you know overreaching
20 or just can't see eye to eye, all of these possibilities. But
21 if you have really two lawyers and two parties who desperately
22 want to settle, no problem. Usually ten out of ten settle. So
23 that's what is alluding me, really, today. Not this new
24 theory --

25 MR. PAUL: Sure.

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1 THE COURT: -- and not what happened to the term sheet
2 and not the metes and bounds, et cetera, none of that is
3 alluding me. What is alluding me is why --

4 MR. PAUL: May I offer the reason because --

5 THE COURT: If you just let me finish.

6 MR. PAUL: All right.

7 THE COURT: You know, if we have a jury trial, you
8 know, you've got to --

9 MR. PAUL: Yes, sir, I understand.

10 THE COURT: -- you've got to let everybody speak.

11 MR. PAUL: Yes. Yes, I understand.

12 THE COURT: So that's the part that's really piqued my
13 curiosity, is why there can't or isn't a settlement where
14 people desperately want to settle.

15 MR. PAUL: Thank you. And I apologize for
16 interrupting.

17 THE COURT: It's all right.

18 MR. PAUL: The reason is, that there's a third party
19 who's very important to the settlement but is not in court, and
20 that is Archie's licensor, Sega. Mr. Penders has sued Sega.
21 That action has been stayed pending the resolution of this
22 case, and we have an obligation, we -- I will say a practical
23 obligation because the last thing we want there to be is a
24 dispute with our good licensor.

25 But our licensor expects Archie to take care of this

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1 problem, as any licensor would. And so while we have, I think,
2 as between Mr. Penders and Archie, we really could -- if those
3 were the only parties, we could do a deal. The problem is that
4 we are paying or are responsible for that part of the overall
5 equation, and the value that Mr. Penders has assigned to that
6 second part of the equation does not take into account this
7 legal issue that I brought to you just now.

8 THE COURT: Yes, I get it. I get it.

9 MR. PAUL: Okay? So that's the problem.

10 THE COURT: So you're saying the missing link is the
11 third party?

12 MR. PAUL: The missing link is the premise, the legal
13 premise that Mr. Penders brings to his valuation and, in fact,
14 the fact of whether he has a claim or not against Sega. And
15 while it would be very inefficient, we could deal with one
16 thing -- we could -- I understand, if we could resolve issues
17 between these two parties, but if you're asking -- your
18 question was what's the impediment to settlement.

19 THE COURT: You can't --

20 MR. PAUL: We're going to end up having to pay for
21 Sega's defense.

22 THE COURT: It's pretty obvious, though, isn't it?
23 Why don't you just bring in Sega to your settlement
24 conversations? I mean, if there's some other missing aspect --

25 MR. PAUL: Right. We have -- Until we can interject

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1 into the discussion the rule, what the courts have said about
2 the ownership of the derivative of the rights, then there's no
3 point.

4 THE COURT: You're talking -- forgive me.

5 MR. PAUL: Please, please.

6 THE COURT: You're talking about angels on a pin. So
7 practical lawyers --

8 MR. PAUL: Practical lawyers, they want a lot of
9 money.

10 THE COURT: Can I finish?

11 MR. PAUL: Of course.

12 THE COURT: So practical lawyers say if there's a
13 missing person, so to speak, who's already been sued and that's
14 indispensable to the resolution of your, meaning the two of
15 you, controversy, so bring in the third person and three
16 lawyers sit down and settle the case. Right? You have a claim
17 against the third party, separate claim, right?

18 MR. DAMAN: Yes, your Honor. We would agree with
19 everything you've just said. We've been asked not to contact
20 Sega, and we've adhered to their wishes.

21 THE COURT: That makes no sense.

22 MR. PAUL: Judge, the case won't go away though,
23 because Sega won't offer a dime.

24 THE COURT: I don't know who asked you not to. I
25 don't think I did.

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1 MR. DAMAN: We were asked by ACP, the other party in
2 this case --

3 THE COURT: Right.

4 MR. DAMAN: -- not to.

5 THE COURT: So but that makes no sense. Forgive me.
6 If he's saying that they're the missing link and, you know,
7 you're two smart business lawyers, so get the missing link.
8 Bring the missing link in and solve all the issues.

9 MR. DAMAN: As an alternative, your Honor, and what
10 happened in November was ACP and Mr. Penders settled their
11 disputes as between themselves.

12 THE COURT: Right.

13 MR. DAMAN: What happened after, in the guise of
14 issuance in the schedule, is they brought up issues on releases
15 for Sega that were not -- that were specifically excluded in
16 November. So we agree, if you're going to bring in Sega, that
17 brings in a whole set of different circumstances in evaluations
18 and that's where we've been bogged down.

19 THE COURT: I would think so.

20 MR. PAUL: The reason Sega is essential, as a
21 practical matter, because Archie needs to continue living with
22 them.

23 THE COURT: You both agree he is, so why don't you --

24 MR. PAUL: I understand.

25 THE COURT: -- bring him in?

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1 MR. PAUL: But Sega is not -- What needs to be
2 resolved or addressed are the more fundamental question of
3 whether this plaintiff has any rights whatsoever.

4 THE COURT: What we're talking about is settlement.
5 That's what we're talking about. So I don't know if you want
6 to write a law review article on this subject --

7 MR. PAUL: No, I don't.

8 THE COURT: -- or you want to give a lecture or
9 whatever. You know, you could do that on the outside. But
10 we're talking now about the real world and settling a case.
11 And if Sega's got, you know, a horse in the race, as it were,
12 that's sort of indispensable to you settling, then why don't
13 you bring in Sega? Who represents Sega?

14 MR. PAUL: They're represented by counsel on the West
15 Coast.

16 THE COURT: It would be the thing to do, no?

17 MR. DAMAN: Again, your Honor, we are certainly
18 amenable to that. We've asked for it several times.

19 THE COURT: Are you amenable to that.

20 MR. PAUL: In light of the discussion, I'm certainly
21 amenable to it.

22 THE COURT: So then the question is the how, you know,
23 the mechanics. You can either do it on yourselves. I'm sure I
24 could find a magistrate judge that would help, if you'd think
25 that would be useful, or I could be helpful, if you think that

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would be useful, or parties sometimes go out to JAMS or wherever and find a -- and you've had a mediator.

MR. PAUL: We have, and he's indicated he's willing to stay with us.

THE COURT: So maybe that mediator, maybe that's the obvious thing to do just to get the Sega lawyer, or I don't know if you go there with principles. Seems to me it would be the obvious thing to do. It's never been tried, I take it.

MR. PAUL: No.

MR. DAMAN: No, your Honor. We've been explicitly told not to do that. It has not been tried.

THE COURT: All right. So don't you think that would be a more fruitful way to go?

MR. PAUL: I do. I'm hoping that when we do that, that we'll have an opportunity to reframe the expectations of Mr. Penders in terms of what his rights are worth.

THE COURT: Well, you know what, you usually go into -- the most successful way to go into arbitration or mediation or settlement is without setting any parameters about whether -- what Mr. Penders is or isn't willing to do. It's just to go, in good faith, and present to the mediator what you feel are your strongest points vis-a-vis each other and Sega and vice versa. And I take it the mediator is a skillful person?

MR. PAUL: Yes, I think he is.

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1 THE COURT: Do you feel that way, too?

2 MR. DAMAN: Yes, he was very --

3 THE COURT: He's helpful so far. He helped you get to
4 a term sheet, right? And if he's willing to help some more, I
5 would say you should schedule a mediation with the three of you
6 before the same mediator.

7 MR. DAMAN: And, your Honor, I would also say that
8 Mr. Paul brought up this new theory to me just outside. We're
9 willing to read the law on it.

10 THE COURT: Absolutely, everybody would be. Me too.
11 Me too, although I'd rather you read it first --

12 MR. PAUL: Of course.

13 THE COURT: -- and see where it takes you, but if and
14 when I have to, I'm happy to read it as well.

15 So how long would it -- Let's change the dynamic then.
16 How long would it take you to put that mediation together? Of
17 course, it depends on the mediator, his schedule and your
18 schedules. And who is the attorney from California? Is it a
19 big firm or a small firm?

20 MR. PAUL: It's a big firm. It's Fenwick and West,
21 and I think their Palo Alto office.

22 THE COURT: So I leave that -- What do you think is a
23 reasonable time? What I'd like to do is to set another status
24 conference here, which would be post any such mediation. So
25 you two, if you want to go off the record and talk among,

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1 between yourselves as to what is likely, or if you even want to
2 make a phone call or two, to the mediator and/or Sega's
3 counsel, and then we'll reconvene here in an hour or so.

4 MR. PAUL: I think that probably would be best since
5 we're dealing with --

6 THE COURT: West Coast and --

7 MR. PAUL: Yes, West Coast. Is that fair? I'm here.

8 MR. DAMAN: I think the scheduling is something that
9 is very worthwhile. I don't know that I have confidence that
10 in an hour we'll have gotten the relevant people on the phone
11 to make a date. So I would say we should probably set a
12 reasonable time, as we've been doing, either a month or six
13 weeks to come back, by which time it should have happened.

14 THE COURT: Okay. I'm game for either one.

15 MR. PAUL: I have a -- my suggestion would be give us
16 24 hours and we'll tell you, you know -- we can then -- we'll
17 know -- or 48 hours, and we'll know when the mediation will be,
18 and then we can schedule the next conference for whatever time
19 you think is reasonable after that.

20 THE COURT: All right. Let's say Monday. Do you want
21 to come back here or call me on the phone?

22 MR. PAUL: The phone is fine. Whatever you like.

23 THE COURT: Phone?

24 MR. DAMAN: We prefer the phone.

25 THE COURT: Okay. We'll have a phone conference on

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1 Monday at 10:00 a.m. So that is, what, May 6th at 10:00 a.m.

2 Okay. Anything else you want to add for today?

3 MR. PAUL: No. Just, so we're not going to deal with
4 a date for a trial? We'll just deal with that if we need to?

5 THE COURT: I wouldn't think it makes any sense.

6 Maybe we can obviate the need for all that.

7 MR. DAMAN: I agree. It wouldn't make sense to deal
8 with the trial. I guess because of Mr. Penders' experience,
9 while this has been going on, you know, the motion for -- will
10 we be allowed to file a motion for the injunction against
11 publication of the works, which is a letter, your Honor. I'm
12 just asking to be allowed to file a motion.

13 THE COURT: Okay. Why don't we talk about that on
14 Monday on the phone conference, and if need be, we can set a
15 schedule for such a motion. Okay?

16 MR. PAUL: Okay.

17 MR. DAMAN: Fine. Thank you, your Honor.

18 THE COURT: If we don't need to, if you're more
19 successful between now and Monday, you may put that aside, too.
20 But you'll let me know. Okay?

21 MR. DAMAN: Thank you very much, your Honor.

22 MR. PAUL: Thank you.

23 THE COURT: Great to see you both.

24 MR. DAMAN: Thank you, your Honor.

25 THE COURT: Thanks, so much.

(Adjourned)